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I. INTRODUCTION

The relatively sluggish and unsatisfactory growth of the Latin American economy in 1978 continued the trend which set in the mid-1970s when, after a very dynamic period, it began to feel the effects of the international economic recession. Thus, during 1978 productive activity once again increased at too low a rate to cause a significant rise in per capita income, while at the same time in many countries the recent high indexes of inflation persisted and the foreign trade deficit increased. As in previous years, however, this last factor was more than offset by the net inflow of non-compensatory capital, so that the balance of payments actually showed a record surplus and the region's international reserves reached an all-time high peak.

According to the available preliminary estimates, the gross domestic product of Latin America increased by 4.6% in 1978.^{1/} Although this rate is higher than the 3.5% recorded in the industrialized countries in that year, and also slightly higher than the rate achieved by the region in the three preceding years, it was nevertheless much lower than the growth rates of the five-year period 1970-1974, when the region's total output grew at a very high annual rate and the per capita product rose by 4.4% per year (see table 1).

Progress was also minimal in 1978 on the inflation front. In Latin America as a whole consumer prices rose by an average of around 40%, which was similar to that recorded in 1977.^{2/} The relative lack of success of the efforts made to bring down inflation was also reflected in the fact that while half the countries of the area managed to reduce the rates of inflation they recorded in 1977, in the other half price increases were higher in 1978 than in the previous year. The persistence and intensity of

^{1/} Due to the lack of data on real changes in the product in the English-speaking Caribbean countries and Suriname and methodological differences in the calculation of the product in Cuba, this analysis of economic growth in the region only considers the 19 countries which appear in table 2.

^{2/} These averages were calculated on the basis of changes in the consumer price indexes of the 23 countries which appear in table 10, weighted by the share of each country in the total population of Latin America.

Table 1
LATIN AMERICA: MAIN ECONOMIC INDICATOR^{a/}

	1970	1971	1972	1973	1974	1975	1976	1977	1978 ^{b/}
<u>Basic economic indicators</u>									
Gross domestic product at factor cost (billions of US dollars at 1970 prices)	172	183	196	213	213	235	245	255	267
Population (millions)	265	272	280	287	295	303	312	321	330
Per capita gross domestic product (US dollars at 1970 prices)	648	672	700	739	770	773	784	797	810
<u>Growth rates</u>									
<u>Short-run economic indicators</u>									
Gross domestic product	6.9	6.7	6.9	8.5	7.1	3.2	4.2	4.3	4.6
Per capita gross domestic product	4.0	3.8	4.1	5.6	4.3	0.4	1.4	1.5	1.8
Gross income ^{c/}	4.0	6.7	7.4	10.2	9.1	1.4	4.9	4.7	...
Terms of trade	3.3	-2.7	3.0	12.4	14.1	-12.1	3.7	3.4	-9.7
Current value of exports of goods and services	8.3	4.4	15.7	38.6	54.3	-5.6	14.4	16.5	6.7
Current value of imports of goods and services	13.8	10.2	13.8	28.2	65.1	7.1	2.8	13.1	12.7
Consumer price index ^{d/}	12.2	13.3	21.2	37.0	40.7	59.7	63.6	41.6	39.9
<u>Millions of US dollars</u>									
<u>External sector</u>									
Trade balance (goods and services)	-355	-1 468	-1 292	690	-2 197	-8 435	-3 449	-2 101	-6 108
Oil-exporting countries	478	611	388	1 905	7 349	2 631	2 079	-1 784	-4 551
Non-oil-exporting countries	-833	-2 078	-1 680	-1 214	-9 546	-11 066	-5 528	-317	-1 557
Balance on current account	-3 105	-4 409	-4 315	-3 375	-6 990	-14 046	-10 057	-10 361	-14 622
Oil-exporting countries	-273	-248	-317	729	6 139	2 047	1 480	-2 362	-5 034
Non-oil-exporting countries	-2 832	-4 160	-3 998	-4 104	-13 129	-16 093	-11 537	-7 999	-9 588
Balance of payments position	1 558	496	2 829	4 047	3 704	965	2 662	4 333	6 961
Oil-exporting countries	86	430	305	684	5 031	3 088	572	433	-1 466
Non-oil-exporting countries	1 472	67	2 524	3 363	-1 328	-2 123	2 090	3 900	8 427

Source: Product, income, prices and external sector: CEPAL; population: CELADE.

a/ The figures for the product, population and income relate to the group of 19 countries included in table 2; the figures for the external sector and prices relate to the same group of countries plus Barbados, Guyana, Jamaica and Trinidad and Tobago.

b/ Preliminary figures.

c/ Gross domestic product plus terms-of-trade effect.

d/ Variation from December to December.

inflation are also visible in the fact that in six countries accounting for 54% of the total population of Latin America, prices rose at a rate of over 30%, while rising by less than 10% in only 9 countries, in which barely 13% of the Latin American population live.

The trend towards greater equilibrium in the foreign trade of Latin America, observed over the two previous years, was interrupted in 1978. In 1976 and 1977 the growth rate of the region's exports, and particularly those of the non-oil-exporting countries, was well above the growth rate of imports. In 1978, on the other hand, the rate of growth of the value of exports dropped sharply, although their volume increased at a much higher rate than in any of the eight previous years. At the same time, the value of imports continued to rise by about 13% for the second year running as a result of roughly equal increases in their volume and unit value. As a result of the rise in the latter and the simultaneous drop in average export prices, the terms of trade of Latin America declined by almost 10%, which more than wiped out the improvement registered during the two previous years.

The main result of the difference in the performance of external sales and external purchases of the region was naturally a larger foreign trade deficit. After reaching a record of over 8,400 million dollars in 1975, the deficit shrank over the following two years to only 2,100 million in 1977, but in 1978 it climbed once again to a level almost three times that of the previous year (see table 1).

This change in the trend of the balance of trade in goods and services caused a similar reversal in the current account of the balance of payments, where the deficit in 1978 was over 14,600 million dollars, more than 40% higher than in 1977 and even greater than the deficit in 1975 when the world recession was at its height.

However, as pointed out above, the net inflow of non-compensatory capital reached the extraordinary volume of almost 21,600 million dollars, thus amply offsetting the deficit on current account and permitting the region as a whole to obtain a balance-of-payments surplus of nearly 7,000 million dollars, a figure much higher than any in the past. What is more, the great majority of the countries of the area contributed to the generation of this

/overall surplus

overall surplus since all of them, with the exception of Bolivia, Nicaragua and Venezuela, had a balance-of-payments surplus. However, since most of the net inflow of capital to the area consisted of loans, this also implied that external indebtedness continued to increase very rapidly for most of the countries.

In short, then, the basic conclusions presented in the previous CLPAL Economic Survey remained valid in 1978.^{3/} The Latin American economy, although partly recovered from the impact of the long and intensive recession in the industrialized countries and the exceptional rise in oil prices, continued to suffer the effects of those changes on its evolution. Thus, the rate of economic growth, though higher than in 1975-1977, was distinctly lower than that attained in the first five years of the decade; the average rate of inflation was more than twice that normally occurring before the rise in the price of oil; and the deficit on current account, after dropping in 1976 and levelling out in 1977, rose sharply in 1978 to reach a record amount almost four times the average for the period 1970-1973.

^{3/} See CEPAL, Economic Survey of Latin America, 1977, Santiago, October 1978, p. 25.

II. ECONOMIC GROWTH

As noted earlier, in 1978 Latin America maintained a moderate rate of economic growth for the third consecutive year. The gross domestic product of the region rose by 4.6%, a rate which was somewhat higher than in the two previous years and a good deal higher than in 1975, but much lower than the 7.2% achieved on average during the five-year period 1970-1974. Consequently, the average growth rate of the per capita product during the period 1976-1978 was only 1.6%, or only slightly over one-third of the very high rate achieved in the first five years of the present decade (see table 2).

In addition, since in 1978 the terms of trade declined by about 10%, gross income rose less than the product, thus reversing the situation prevailing in the two previous years.

As is usually the case, these regional averages were the outcome of uneven trends in the different countries of the region. Thus, while the rate of growth for the regional product tended to rise above all because of greater growth in 1978 in the economies of Brazil, Colombia and Mexico, it was negatively affected by the sharp fall in economic activity in Argentina and Nicaragua and by the reduction in Peru (see table 2).

Among the major economies of the region, the rise in the growth rate was particularly marked in Mexico and Colombia.

In Colombia, the gross domestic product rose by 8.2%, thus almost doubling the growth rate of the three preceding years. This advance - without precedent since Colombia began preparing national accounts in 1950 - reflected the significant progress made in almost all economic activities in 1978. Agricultural output rose by 9% after growing at a lower rate than the population for two years. The growth of the manufacturing product was even greater (9.5%), while the surface area of residential construction begun in the seven main cities of the country increased by around 18% for the second consecutive year. This vigorous growth of the goods-producing sectors was combined with a strong growth of basic services and continued expansion of financial and commercial activities, the latter being stimulated not only by the great dynamism in the production of goods and the sharp rise in rural income generated by a three-year coffee boom, but also by the extraordinary and lasting rise in imports of goods, the value of which in 1978 was almost double the level of three years before.

Table 2

LATIN AMERICA: EVOLUTION OF GROSS DOMESTIC PRODUCT

Country	Total					Per capita						
	Annual growth rates					Dollars at 1970 prices		Annual growth rates				
	1970-1974	1975	1976	1977	1978a/	1970	1978a/	1970-1974	1975	1976	1977	1978a/
Argentina	5.2	-1.3	-2.9	4.7	-4.1	1 208	1 277	3.8	-2.6	-4.2	3.3	-5.3
Bolivia	5.8	5.5	6.5	3.6	3.1	296	364	3.5	3.0	3.8	0.9	0.5
Brazil	11.5	5.7	9.0	4.7	6.3	450	728	8.4	2.7	5.9	1.7	3.3
Colombia	6.9	4.3	4.2	4.7	8.2	528	705	4.4	1.9	1.7	2.2	5.6
Costa Rica	7.1	2.1	5.5	7.7	5.9	658	871	4.4	-0.3	3.0	5.2	3.4
Chile	2.6	-11.3	4.1	8.6	7.3	850	875	0.8	-12.8	2.3	6.8	5.5
Ecuador	8.1	7.5	8.1	5.3	6.4	368	520	5.0	4.4	4.9	2.2	3.2
El Salvador	4.9	4.2	4.3	4.9	4.4	390	455	1.6	1.2	1.3	1.8	1.6
Guatemala	6.4	1.9	7.4	8.4	5.3	410	516	3.1	-1.2	4.2	5.1	2.2
Haiti	4.7	2.2	5.3	1.3	3.6	112	126	2.4	-0.1	2.9	-1.1	1.2
Honduras	3.3	-0.1	5.9	10.2	6.8	278	306	0.2	-3.4	2.3	6.3	3.1
Mexico	6.2	4.1	1.5	2.7	6.6	893	1 004	2.8	0.6	-1.8	-0.7	3.1
Nicaragua	5.3	2.2	5.8	6.0	-5.3	394	422	2.0	-1.1	2.4	2.5	-8.3
Panama	5.6	0.6	-0.3	0.9	4.0	868	913	2.7	-2.1	-2.8	-1.6	1.5
Paraguay	6.4	5.0	7.5	11.8	10.0	353	501	3.4	2.1	4.4	8.6	6.8
Peru	6.6	3.3	3.0	-1.2	-1.8	527	551	3.7	0.5	0.2	-3.9	-4.5
Dominican Republic	10.1	5.2	6.4	4.4	3.6	351	478	6.9	2.3	3.6	1.8	1.0
Uruguay	0.8	4.4	2.6	3.4	2.5	947	1 046	0.6	4.2	2.2	2.8	1.9
Venezuela	5.2	5.2	7.8	6.8	6.4	1 163	1 379	1.7	1.7	4.2	3.3	3.0
<u>Total</u>	<u>7.2</u>	<u>3.2</u>	<u>4.2</u>	<u>4.3</u>	<u>4.6</u>	<u>648</u>	<u>811</u>	<u>4.4</u>	<u>0.4</u>	<u>1.4</u>	<u>1.5</u>	<u>1.8</u>

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

The rise in the growth rate was likewise notable in Mexico, where the gross domestic product increased by 6.6% after growing very sluggishly over three years, in two of which the per capita product actually declined. This higher growth rate was principally due to the strong growth of oil production (which rose by 23%, as in 1977), the satisfactory rise in industrial output (almost 9%, after three years of scant growth) and the upturn in the construction sector (whose product rose by over 12%, after having declined steadily during the three previous years). The Mexican economy's recovery of its traditional dynamism was accompanied by a pronounced rise (16.5%) in gross fixed investment - which had also declined in absolute terms in 1976 and 1977 - and by an equally strong growth of the volume of exports of goods and services. The latter largely stemmed from the extraordinary rise in oil sales, whose value increased by about 80% for the second year running, becoming the main export product.

Although slightly lower than in Mexico, the rise in the growth rate was also significant in Brazil. Although much smaller than in the five-year period 1970-1974, when overall economic activity grew at the extraordinary annual rate of 11.5%, the 6.3% increase in the gross domestic product in 1978 was well above the 4.7% increase in the previous year. This higher growth was mainly due to faster growth in manufacturing - whose product rose by about 7.5% in 1978, more than three times the growth rate in 1977 - and the steady growth of the construction sector, which once again grew by nearly 10%. This stronger growth of the total economy was achieved despite a 2% drop in agricultural production in 1978, mainly due to bad weather conditions.

Although lower than in 1977, the growth rate of the product was once again very high in Paraguay (10.0%) and in Chile (7.3%). However, the reason for the increases was different in the two countries.

In Paraguay, whose economy for the second year running achieved the highest growth rate of the entire region, the expansion recorded in 1978 was the continuation of a steady growth process which set in in the early 1970s and took off steeply in 1976, primarily as a result of the direct and indirect effects of the construction of the huge Itaipû hydroelectricity dam. Due to this steady growth, the per capita product in 1978 was 40% higher than in 1970.

/In Chile,

In Chile, on the other hand, the rise in the product in 1978 - due to large increases in industrial output, construction and commerce and the steady growth of non-traditional exports - essentially represented a return to the levels of activity achieved at the beginning of the decade. As a result of the fall in the gross domestic product in 1972 and 1973 and above all the enormous drop of over 11% in 1975, the per capita product in 1978 only marked the recovery of the average level for the period 1970-1971.

The per capita product also rose at a satisfactory rate in Venezuela and Ecuador - two of the "traditional" oil-exporting economies ^{4/} and in Costa Rica and Honduras - the only two countries of the Central American Common Market which managed to increase the value of their exports in 1978.

In Venezuela the economic growth rate dropped slightly in 1978, as in the previous year. Nevertheless, the annual growth rate of the gross domestic product during the three-year period 1976-1978 was 7% and thus - unlike almost all the other economies of the region - it was well above the rate (a little over 5%) achieved in the period 1970-1975. As in previous years, economic growth in 1978 was due to the sharp expansion of the sectors oriented towards satisfying domestic demand, whereas oil extraction declined for the fourth year running in accordance with the government's policy of conserving petroleum resources. Thus in 1978 there was a rise of around 7% in agriculture, manufacturing and construction, while electricity, gas and water services increased by over 11% and transport, storage and communications by 8%. At the same time gross fixed capital investment rose by 14%, which was less than in previous years but which represented a further rise in the already very high investment coefficient.

In Ecuador, on the other hand, although the economic growth rate was higher in 1978 than in the previous year it fell short of the level attained in the period 1970-1976, when the gross domestic product rose at the unusually high annual rate of 8% thanks to the powerful boost given initially by the creation of the petroleum industry and afterwards by the rise in the world price of oil fixed by OPEC at the end of 1973.

^{4/} The other two "traditional" oil-exporting economies of the region are Bolivia and Trinidad and Tobago. In recent years, and particularly in 1978, Mexico has become a major oil exporter, while Peru has also become an exporter on a much smaller scale.

In Costa Rica overall economic growth, while smaller than in the previous year or during the phase of accelerated growth in the period 1970-1974, caused the per capita product to rise by 3.4% in 1978. The rise of almost 6% in overall economic activity was primarily the result of the marked expansion of manufacturing, construction and basic services - all of which expanded rapidly for the third year running - and the upturn in the agricultural sector, whose product rose by 5% after two years of extremely feeble growth. As in the previous two years, the growth rate of fixed capital investment was well above that of the product and consequently the investment coefficient rose once again, amounting to almost 28% of the domestic product - one of the highest figures in all Latin America.

Economic growth was also fairly high in Honduras, where after stagnation in 1974 and 1975, the gross domestic product rose by almost 25% in the following three years. As in the previous two years, the growth in the economy in 1978 was basically due to the sustained strong increase in industrial output - which rose by almost 10% for the third year running - and an appreciable increase of almost 8% in the agricultural product as a result of a recovery in banana output and rises of 10% in the output of coffee and sugar. Rapid growth of the output of goods was also stimulated by the rapid expansion in construction, which as in 1977 contributed to a substantial increase in fixed capital investment.

In the other countries of the Central American Common Market the rate of growth was rather lower. In Guatemala - where the economy grew vigorously in the period 1970-1974, and above all in 1976 and 1977 - the per capita product rose by only 2.2% in 1978. This was the lowest rate recorded in the decade, with the exception of 1975, which marked the peak of the international recession. The El Salvador economy in 1978 experienced a drop in its already low rate of growth of previous years, while the gross domestic product fell by over 5% in Nicaragua, where the economic situation suffered a decline unprecedented in the country's modern history, largely as a result of the acute political tension which exploded in September.

/Economic activity

Economic activity also increased at relatively low rates of between 2.5% and 4% in Uruguay, Bolivia, Haiti, the Dominican Republic and Panama. Nevertheless, the very different rates of population growth in these countries led to quite varied rates of increase in the per capita product.

Thus the per capita product grew fastest in Uruguay (1.9%), even though this was the country with the slowest (2.5%) increase in general economic activity among the five countries considered. This latter rate, although lower than that achieved in each of the four preceding years, meant a continuation of the process of moderate growth in per capita income which began in 1975, after virtual stagnation of the previous fifteen years.

The small increase of 1.5% in the per capita product in Panama in 1978 represented an interruption of the continuous downward trend observed since 1974, and despite this increase the per capita product barely recovered in 1978 the level of seven years previously.

The situation was relatively similar, though somewhat more favourable, in Haiti, where the 1978 rise in the per capita product merely offset its drop in 1977, so that the 1978 level barely exceeded that of 1974.

In contrast, in Bolivia and above all in the Dominican Republic the small increases in the per capita product recorded in 1978 marked a continuation of the relative stagnation which had begun the previous year, interrupting the very vigorous growth which both economies had achieved between 1970 and 1976.

Finally, general economic activity declined in both Peru and Argentina, the two countries which also recorded the highest inflation in Latin America in 1978.

In Peru the gross domestic product fell for the second year running, so that the per capita product fell below the 1972 level. An important factor in the drop in general economic activity was the restrictive policy applied by the government in order to reduce the external imbalance and cut back the strong inflationary process. In order to achieve these objectives, the economic authorities reduced real consumption by the general government by about 16% and cut public investment even more drastically, so that in real terms it fell by 25% in 1978, as it had done in the previous year.

/Private investment

Private investment also dropped for the second consecutive year by more than 12%, while personal consumption - which had recorded a slight fall in 1977 - declined by nearly 5%. As was to be expected, the reduction of domestic demand was reflected in a further drop in output from the manufacturing sector - which declined by more than 3% after a fall of about 7% in 1977 - and in a sharp fall of more than 19% in construction activity. On the other hand, fishing and mining, both basically outward-oriented sectors, registered substantial real increases of 23% and 15% respectively. As a result, the volume of exports of goods increased appreciably, while drops in domestic income and output helped to produce a fall of about 30% in the volume of imports. The effect of these divergent trends was a sharp turn-around in the trade balance, which, after showing a deficit of more than US\$ 550 million in 1977, recorded a surplus of US\$ 135 million in 1978.

The decline in economic activity was even greater in Argentina, where the gross domestic product fell for the third time in the past four years (see table 2). Consequently, the per capita product in 1978 was almost 9% lower than in 1974, and barely higher than the figure for 1972. As in Peru, the decline in the level of general economic activity was accompanied by a sharp drop in investment, a fall in industrial output, a reduction in the volume of imports of goods, an appreciable improvement in the external financial balance and a rise in the rate of inflation.

III. THE EXTERNAL SECTOR

1. External trade

The year 1978 saw a continuation of the strong expansion of Latin America's external trade which began in 1976, when it recovered partially from the contraction it suffered in 1975 as a result of the international economic recession.

Nevertheless, the region's external trade evolved rather differently in 1978 from the two previous years. In those years - and particularly in 1976 - the rate of growth in the value of exports was not only very high, but amply exceeded that of imports. As a result, the deficit on trade in goods and services, which had reached the unprecedented level of more than US\$ 8,400 million in 1975, dropped sharply to only US\$ 2,100 million in 1977. At the same time the terms of trade improved, especially for the non-oil-exporting countries.

In 1978, in contrast, the rate of increase in the value of exports dropped abruptly, despite an exceptional rise in volume of more than 10%. The increase in the value of exports was also much lower than the increase in imports, which continued their intensive growth for the second year running. As a result, the trade deficit increased once again, reaching US\$ 6,100 million. Moreover, the drop in the international prices of various Latin American export products, particularly coffee, together with the continuous rise in the average price of imports, largely due to inflation in the industrialized countries, led to a worsening in the terms of trade which more than offset the rise in the terms of trade recorded in the two previous years.

(a) Exports of goods

As already noted, the rate of growth in the value of exports dropped appreciably in 1978. After two years when the region's external sales increased at the very high rate of nearly 17%, these sales increased by only 6% in 1978 (see table 3).

/Table 3

Table 3
LATIN AMERICA: VARIATIONS IN EXPORTS AND IMPORTS OF GOODS
(Growth rates)

Year	Exports			Imports			Purchasing power of exports
	Value	Volume	Unit value	Value	Volume	Unit value	
<u>Latin America</u>							
1970	9.0	1.3	7.7	13.5	8.8	4.3	4.5
1971	2.9	0.7	2.2	10.9	5.6	5.0	-2.0
1972	16.3	6.8	8.9	14.3	8.1	5.7	10.0
1973	42.7	8.4	31.6	30.5	11.4	17.1	21.9
1974	60.3	-0.8	61.5	73.2	22.3	41.6	13.2
1975	-7.6	-4.3	-3.4	5.7	-3.7	9.8	-15.9
1976	16.3	6.6	9.0	2.0	-3.1	5.2	10.6
1977	17.3	5.2	11.6	12.9	4.7	7.9	8.7
1978 <u>a/</u>	5.9	10.3	-4.0	13.4	6.7	6.3	-0.3
<u>Oil-exporting countries</u>							
1970	5.2	2.4	2.7	6.5	0.6	4.6	0.6
1971	14.1	-3.4	18.1	13.7	7.4	5.8	7.8
1972	5.8	2.0	3.7	14.0	7.3	6.2	-0.4
1973	46.8	6.7	37.6	16.9	0.7	16.0	26.5
1974	140.2	-8.0	161.0	77.4	27.2	39.5	72.2
1975	-19.0	-21.1	2.6	19.0	7.4	10.8	-26.9
1976	11.9	5.4	6.2	19.2	9.7	8.8	2.9
1977	3.8	-6.2	10.6	31.3	21.1	8.5	-4.3
1978 <u>a/</u>	-5.0	-2.5	-2.7	13.7	5.4	7.9	-12.0
<u>Non-oil exporting countries</u>							
1970	10.2	0.7	9.4	15.3	10.5	4.3	5.7
1971	-0.6	2.0	-2.6	10.2	5.1	4.8	-5.2
1972	20.1	8.3	11.0	14.3	8.3	5.5	13.8
1973	41.3	8.9	29.8	33.7	13.9	17.4	20.4
1974	33.7	1.2	32.0	72.3	21.3	42.0	-5.9
1975	-0.7	-	-0.7	2.9	-6.1	9.6	-9.4
1976	18.4	6.9	10.8	-2.3	-6.2	4.1	13.6
1977	23.6	7.4	15.1	7.3	-0.1	7.4	15.2
1978 <u>a/</u>	10.1	12.5	-2.1	13.2	7.1	5.7	4.2

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/This reduction

This reduction occurred despite a simultaneous appreciable increase of more than 10% in the volume of exports - an unprecedented rate in the decade and even higher than the very high rates recorded in 1972 and 1973, before the international crisis, when the world economy and world trade grew very rapidly.

The sole cause of the slower rate of increase in the value of exports in 1978 was thus the drop in the international prices of many Latin American export products, which was especially marked in the cases of coffee and cocoa.

As in the three preceding years, the trend in exports was rather more favourable in the non-oil-exporting countries than in the four traditional oil economies.^{5/} Thus, while the value of the external sales of the latter dropped by 5%, the value of the exports of the 19 remaining countries rose by 10%. Thanks to this increase and the even greater increases in the two previous years, the total value of these countries' exports in 1978 was more than 60% higher than the figure of only three years previously.

In contrast to events in 1976 and 1977, the increase in the value of external sales by the non-oil-exporting countries was exclusively due in 1978 to the greater volume exported. The volume was 12.5% higher than the previous year - a rate of growth never achieved in the seven preceding years. Moreover, this growth in the volume of exports was observed in the vast majority of the countries considered. In fact, the only exception was the Dominican Republic, where the volume of exports remained stable. Furthermore, in many countries the increase in volume was considerable. Thus, in nine of them the volume of exports rose by at least 10%, and in Barbados, Colombia and Mexico the increase was more than 25% (see table 4).

^{5/} In order to maintain continuity in the statistical series, Mexico has not been included in the group of oil-exporting countries, even though in 1978 petroleum became the principal Mexican export product.

Table 4
LATIN AMERICA: VARIATIONS IN EXPORTS OF GOODS
(Growth rates)

	Value			Volume			Unit value			Purchasing power		
	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/
<u>Latin America</u>	<u>16.3</u>	<u>17.3</u>	<u>5.9</u>	<u>6.6</u>	<u>5.2</u>	<u>10.3</u>	<u>9.0</u>	<u>11.6</u>	<u>-4.0</u>	<u>10.6</u>	<u>8.7</u>	<u>-0.3</u>
<u>Oil-exporting countries</u>	<u>11.9</u>	<u>3.8</u>	<u>-5.0</u>	<u>5.4</u>	<u>-6.2</u>	<u>-2.5</u>	<u>6.2</u>	<u>10.6</u>	<u>-2.7</u>	<u>2.9</u>	<u>-4.3</u>	<u>-12.0</u>
Bolivia	22.8	14.3	-0.9	14.7	-2.8	-9.9	7.1	17.6	10.0	18.0	2.9	-9.9
Ecuador	27.9	6.9	14.5	7.9	-4.8	24.5	18.6	12.3	-8.0	20.7	-2.8	11.2
Trinidad and Tobago	24.8	4.2	-9.7	17.7	-1.7	-9.7	6.0	6.0	-	18.8	-2.5	-14.8
Venezuela	6.7	2.7	-6.9	0.6	-8.3	-6.9	6.0	11.9	-	-2.1	-6.7	-15.5
<u>Non-oil-exporting countries</u>	<u>18.4</u>	<u>23.6</u>	<u>10.1</u>	<u>6.9</u>	<u>7.4</u>	<u>12.5</u>	<u>10.8</u>	<u>15.1</u>	<u>-2.1</u>	<u>13.6</u>	<u>15.2</u>	<u>4.2</u>
Argentina	31.5	45.4	12.2	39.8	52.7	4.0	-5.9	-4.8	7.8	27.5	29.9	9.3
Barbados	-21.3	22.3	31.9	31.2	22.5	25.6	-40.0	-0.2	5.0	-23.6	14.3	24.4
Brazil	17.3	20.6	5.0	-0.4	-4.3	13.0	17.7	26.0	-7.0	12.9	12.7	-1.8
Colombia	36.9	17.0	16.0	-8.8	-26.2	37.0	50.1	58.5	-15.0	30.4	6.4	6.6
Costa Rica	19.4	38.5	10.0	2.0	2.6	16.0	17.0	34.9	-5.0	12.7	23.5	4.2
Chile	32.3	5.1	10.7	20.8	5.6	8.0	9.5	-0.5	2.5	29.6	-4.5	2.5
El Salvador	40.9	29.4	-12.9	2.4	-4.1	2.9	37.6	35.0	-15.0	40.4	15.5	-17.0
Guatemala	23.9	50.1	-2.7	6.8	11.2	0.8	16.0	34.9	-3.5	15.6	37.4	-9.2
Guyana	-22.5	-4.9	24.3	-16.7	-12.3	11.8	-7.0	8.4	11.2	-24.0	-10.3	18.4
Haiti	39.5	24.3	13.4	0.2	-24.5	10.4	38.9	64.1	3.1	30.2	14.8	6.3
Honduras	31.1	29.4	16.3	11.9	3.5	18.8	17.1	25.0	-2.1	21.3	16.6	10.9
Jamaica	-18.4	15.2	7.0	-9.2	8.7	7.0	-10.1	6.0	-	-20.7	8.7	0.1
Mexico	14.9	20.7	31.2	1.6	9.8	28.6	13.0	9.9	2.0	10.5	17.3	24.3
Nicaragua	44.5	16.1	-1.3	6.1	-6.6	3.8	36.3	24.3	4.9	39.6	9.3	-10.3
Panama	-19.2	7.3	-2.4	-21.0	4.2	2.7	2.4	3.0	-5.0	-23.7	2.2	-5.2
Paraguay	2.8	78.7	-7.9	3.1	32.7	1.0	-0.4	34.8	-8.9	7.4	67.4	-10.6
Peru	5.5	26.8	6.4	7.2	28.9	10.9	-1.6	-1.6	-4.0	3.2	19.1	-1.5
Dominican Republic	-19.8	8.9	-10.4	13.8	-1.2	-	-29.6	10.2	-10.4	-23.7	2.8	-17.1
Uruguay	46.8	8.3	9.5	45.0	-1.9	9.8	1.2	10.4	-0.3	38.5	-1.6	6.3

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/Nevertheless, this

Nevertheless, this considerable effort was partly frustrated by the drop in the unit values of exports. These values, whose sharp rise in 1977 had benefited 15 of the 19 non-oil-exporting countries, underwent substantial declines in 1978 which affected eleven of these countries, and especially the coffee-exporting countries such as Brazil, Colombia and El Salvador and Paraguay and the Dominican Republic.

Developments were different in the oil-exporting countries. On the one hand, the volume exported fell sharply in all of them, except Ecuador, but on the other, the unit value of their exports either remained stable - as occurred in Trinidad and Tobago and Venezuela - or rose significantly, as happened for the third year in succession in Bolivia. Ecuador, where coffee and cocoa make up a relatively high proportion of exports, was an exception in this respect too, since the unit value of its exports dropped by 8% (see table 4).

(b) Imports of goods

In contrast to exports, the rate of growth in the value of imports of goods slightly accelerated in 1978. Imports of goods rose by about 13% for the second year running because of similar rises in unit value and volume (see table 3).

The volume of imports rose by about 7% and thus exceeded the high level of 1974 for the first time in the past three years. Nevertheless, this situation was due solely to the group of oil-exporting countries, where the volume of imports has grown at fluctuating but very high rates since 1974, with the result that their volume of imports in 1978 was almost double the 1973 level.

In the non-oil-exporting countries in contrast, the rise of 7% in the volume of imports in 1978 was the first increase since 1974, and did not succeed in offsetting the effect of the drops in the three years 1975-1977. As a result, the volume of imports to this group of countries was still about 6% lower in 1978 than in 1974.

The break with the downward trend which had been recorded since 1974 in the volume of imports of the non-oil-exporting countries was largely due to the reversal in 1978 of the performance of real imports into Brazil and Mexico.

/Because of

Because of the higher rate of growth of the Mexican economy and the radical improvement in the situation and prospects of its external sector as a result of rapid growth in sales of petroleum and the discovery of enormous reserves of hydrocarbons, the volume of Mexico's imports rose by 30% in 1978, thus reversing the downward trend of the previous three years (see table 5).

The reversal of the trend was also evident, although less marked, in Brazil, where the volume of imports rose 6% in 1978 following a decline of over 20% in the period 1975-1977. The fact that this substantial drop in the quantum of imports of goods coincided with a real increase of 20% in the domestic product over the same period reflected the size of Brazil's effort to stabilize its trade balance by means of import substitution. The very intensity of that effort, however, which resulted in a drop of over one-third in the import coefficient in only three years, meant that it would be increasingly difficult to reconcile the maintenance of a positive rate of economic growth with a declining or even a stable level of imports. It is not surprising, therefore, that imports increased in volume in 1978.

In other countries like Colombia, Costa Rica, Honduras and Paraguay, which in 1978 were still enjoying a favourable external situation deriving from the high price obtained for their main export products in recent years, the volume of imports continued to increase at a rapid pace for the third year in succession.

The same situation arose in Chile where, as had already happened in 1977, the demand for imports increased with the dual stimulus of the recovery of domestic economic activity and the policy of a systematic and generalized reduction in tariffs put into practice by the Government.

In contrast, as was only to be expected, the import quantum dropped sharply in Nicaragua, Peru and, to a lesser extent, Argentina, in all of which countries there were substantial decreases in the gross domestic product (see table 5).

Table 5
LATIN AMERICA: VARIATIONS IN IMPORTS OF GOODS
(Growth rates)

	Value			Volume			Unit value		
	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/
<u>Latin America</u>	<u>2.0</u>	<u>12.9</u>	<u>13.4</u>	<u>-3.1</u>	<u>4.7</u>	<u>6.7</u>	<u>5.2</u>	<u>7.9</u>	<u>6.3</u>
<u>Oil-exporting countries</u>	<u>19.2</u>	<u>31.3</u>	<u>13.7</u>	<u>9.7</u>	<u>21.1</u>	<u>5.4</u>	<u>8.8</u>	<u>8.5</u>	<u>7.9</u>
Bolivia	9.2	14.5	23.0	4.9	3.2	12.0	4.1	11.0	10.0
Ecuador	5.4	23.1	3.4	-0.6	11.9	0.4	6.0	10.0	3.0
Trinidad and Tobago	30.5	7.8	-3.9	24.3	0.8	-9.4	5.0	6.9	6.0
Venezuela	19.8	40.7	18.4	9.9	27.7	7.6	9.0	10.2	10.0
<u>Non-oil-exporting countries</u>	<u>-2.3</u>	<u>7.3</u>	<u>13.2</u>	<u>-6.2</u>	<u>-0.1</u>	<u>7.1</u>	<u>4.1</u>	<u>7.4</u>	<u>5.7</u>
Argentina	-20.7	37.8	-5.1	-23.1	20.0	-7.4	3.1	12.0	2.5
Barbados	-1.0	28.1	16.0	-3.9	12.0	9.6	3.0	7.0	6.0
Brazil	1.9	-2.3	14.0	-2.0	-8.7	6.0	4.0	7.0	7.0
Colombia	17.7	22.1	30.0	12.2	11.0	19.0	4.9	10.1	9.0
Costa Rica	11.0	30.6	18.0	4.7	16.5	11.0	6.0	12.1	6.0
Chile	-10.5	38.2	27.3	-12.3	25.6	17.9	2.0	10.1	8.0
El Salvador	17.4	33.1	3.5	16.9	18.9	-1.4	0.5	12.0	5.0
Guatemala	34.5	26.1	10.3	25.3	15.4	3.0	7.3	9.3	7.1
Guyana	8.0	-13.1	4.5	5.9	-18.0	-5.0	2.0	6.0	5.0
Haiti	30.6	29.3	7.3	22.0	19.8	0.3	7.0	8.0	7.0
Honduras	13.1	28.8	21.1	4.6	16.1	15.4	8.1	10.9	4.9
Jamaica	-18.4	-15.7	23.1	-20.7	-20.5	15.0	2.9	6.0	7.0
Mexico	-6.9	-10.7	36.8	-10.4	-13.3	29.7	4.0	3.0	5.5
Nicaragua	3.2	41.5	-22.4	-0.2	33.1	-29.5	3.4	6.3	10.0
Panama	-4.7	1.0	3.5	-10.2	-3.8	0.5	6.1	5.0	3.0
Paraguay	1.2	56.5	25.0	5.8	46.5	21.5	-4.4	6.9	2.9
Peru	-12.1	3.1	-22.2	-13.8	-3.3	-28.0	2.0	6.5	8.0
Dominican Republic	-1.2	11.1	6.1	-5.9	4.8	-1.8	5.0	6.0	8.0
Uruguay	8.2	26.7	0.6	2.1	15.2	-2.3	6.0	10.0	3.0

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/(c) The

(c) The purchasing power of exports and the terms of trade

After two years in which the purchasing power of exports rose rapidly, it decreased slightly in 1978 (see table 3).

This drop was due mainly to the situation of the oil-exporting countries, where the purchasing power of their exports fell 12% as a result of the decrease in the volume exported and, above all, the deterioration of nearly 10% in their terms of trade. In spite of this substantial drop and the somewhat smaller decreases in 1975 and 1976, however, the terms-of-trade index of the oil countries was still double the figure recorded at the beginning of the decade (see table 6).

The evolution of the group comprising the remaining 19 countries of the region was quite different. On the one hand, the purchasing power of their exports rose by slightly over 4% in 1978, because the vigorous increase in the volume exported (13%) more than offset the decline of a little over 7% in the terms of trade. On the other hand, however, this decline - although not so marked as in the case of the oil-exporting countries - meant that in 1978 the terms-of-trade index of the group of non-oil-exporting countries fell slightly below the 1970 level (see table 6). Of course, this index for the non-oil-exporting countries as a whole only partially reflects the individual situation of each. Thus, for example, in 1978 the terms-of-trade index (base 1970 = 100) was 147 in Colombia, mainly owing to the high price still obtained for coffee despite the drop recorded that year, while in Chile it was only 54 as a result of the exceptionally low price at which copper continued to be quoted on the world markets.

The drop in the terms of trade for the group of non-oil-exporting countries in 1978 with respect to 1977 did largely reflect the trend prevailing in the majority of these countries, however. Although the fall was more marked in the coffee-exporting economies, it affected all the other countries of the group with the exception of Argentina and Guyana.

Table 6
LATIN AMERICA: TERMS OF TRADE
(1970 = 100)

Year	Latin America		Oil-exporting countries		Non-oil-exporting countries	
	Index	Variation	Index	Variation	Index	Variation
1970	100.0	3.3	100.0	-1.7	100.0	4.9
1971	97.3	-2.7	111.6	11.6	93.0	-7.0
1972	100.3	3.0	108.9	-2.4	97.7	5.1
1973	112.7	12.4	129.1	18.6	108.0	10.6
1974	128.5	14.0	241.6	87.1	100.4	-7.1
1975	113.0	-12.1	223.8	-7.4	91.0	-9.4
1976	117.2	3.7	218.5	-2.4	96.8	6.4
1977	121.2	3.4	222.8	2.0	103.7	7.1
1978 <u>a/</u>	109.5	-9.7	201.1	-9.7	96.1	-7.3

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

2. The balance of payments

(a) The trade and current account balances

The much faster increase in the value of imports of goods (13.4%) than in that of exports of goods (5.9%) led to a sharp deterioration in Latin America's merchandise trade balance in 1978, thus reversing the trend observed in the two preceding years. During that time, trade in goods showed a tendency to generate increasing positive balances, the deficit of over US\$ 5,000 million recorded in 1975 being converted into a small surplus of just under US\$ 200 million in 1976, and one of over US\$ 2,100 million the following year. In 1978, in contrast, the uneven expansion of exports and imports referred to above resulted in a negative balance of nearly US\$ 1,400 million (see table 7).

This reversal, besides being substantial, was generalized. The deterioration in the merchandise trade balances took place in all the countries of the region with the following exceptions: Argentina, in which the increase in exports far exceeded the rise in imports for the third consecutive year, thus giving a surplus of over US\$ 2,700 million; Guyana and Peru, which converted their 1977 deficits into surpluses in 1978 as a result of the continued implementation of policies aimed at reducing the disequilibrium in their external accounts; Nicaragua, where a similar change took place owing to the drastic drop in imports caused by the severe contraction of domestic economic activity; and Haiti, which marginally reduced the previous year's deficit.

The deterioration in the merchandise trade balance was, in contrast, very marked in Venezuela, thus continuing the trend of the three preceding years. During that period the exceptional surplus of nearly US\$ 7,000 million recorded in 1974 declined rapidly, largely owing to the extraordinary increase in imports. As a result, the surplus was only US\$ 460 million in 1977, and in 1978 it turned into a substantial deficit of US\$ 1,950 million, due to a further increase of about 20% in imports and a 7% drop in exports.

/Table 7

Table 7
LATIN AMERICA: TRADE BALANCE
(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net non-factor services			Trade balance		
	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/
<u>Latin America</u>	<u>43 267</u>	<u>50 770</u>	<u>53 757</u>	<u>43 082</u>	<u>48 630</u>	<u>55 130</u>	<u>185</u>	<u>2 140</u>	<u>-1 373</u>	<u>-3 634</u>	<u>-4 241</u>	<u>-4 735</u>	<u>-3 449</u>	<u>-2 101</u>	<u>-6 108</u>
<u>Oil-exporting countries</u>	<u>13 653</u>	<u>14 172</u>	<u>13 458</u>	<u>10 009</u>	<u>13 146</u>	<u>14 952</u>	<u>3 644</u>	<u>1 026</u>	<u>-1 494</u>	<u>-1 565</u>	<u>-2 810</u>	<u>-3 057</u>	<u>2 079</u>	<u>-1 784</u>	<u>-4 551</u>
Bolivia	568	648	642	562	644	792	6	4	-150	-87	-111	-147	-81	-107	-297
Ecuador	1 296	1 385	1 586	1 060	1 305	1 350	236	80	236	-182	-268	-270	54	-188	-34
Trinidad and Tobago	2 370	2 470	2 230	1 843	1 988	1 910	527	482	320	-27	3	20	500	485	340
Venezuela	9 419	9 669	9 000	6 544	9 209	10 900	2 875	460	-1 900	-1 269	-2 434	-2 660	1 606	-1 974	-4 560
<u>Non-oil-exporting countries</u>	<u>29 614</u>	<u>36 598</u>	<u>40 299</u>	<u>33 073</u>	<u>35 484</u>	<u>40 178</u>	<u>3 450</u>	<u>1 114</u>	<u>121</u>	<u>-2 069</u>	<u>-1 431</u>	<u>-1 678</u>	<u>-5 528</u>	<u>-317</u>	<u>-1 557</u>
Argentina	3 895	5 662	6 350	2 783	3 835	3 639	1 112	1 827	2 711	-69	13	62	1 043	1 840	2 773
Barbados	74	91	120	195	250	290	-121	-159	-170	55	106	121	-66	-53	-43
Brazil	9 988	12 048	12 650	12 202	12 000	13 639	-2 294	48	-982	-1 780	-1 463	-1 725	-1 074	-1 415	-2 714
Colombia	2 350	2 796	3 250	1 676	2 047	2 660	714	749	590	-140	-79	-110	574	570	480
Costa Rica	589	815	900	696	909	1 070	-107	-94	-170	-34	-66	-82	-141	-160	-252
Chile	2 077	2 182	2 416	1 412	1 952	2 485	665	230	-69	-278	-353	-339	387	-123	-408
El Salvador	751	972	847	646	860	890	105	112	-43	-72	-117	-119	33	-5	-162
Guatemala	794	1 192	1 160	905	1 141	1 258	-111	51	-98	-35	-142	-177	-146	-91	-275
Guyana	272	259	322	370	287	300	-58	-28	22	-56	-44	-45	-114	-72	-23
Haiti	111	138	157	158	205	220	-47	-67	-63	-25	-33	-36	-72	-100	-99
Honduras	403	522	607	427	550	666	-24	-28	-59	-42	-53	-62	-66	-81	-121
Jamaica	660	760	814	791	667	821	-131	93	-7	-61	-43	-42	-192	50	-49
Mexico	3 978	4 803	6 300	5 859	5 232	7 157	-1 881	-429	-857	494	714	619	-1 387	285	-238
Nicaragua	542	629	621	498	704	546	44	-75	75	-47	-54	-47	-3	-129	28
Panama	267	287	280	784	792	820	-517	-505	-540	359	402	409	-158	-103	-131
Paraguay	181	324	298	230	360	450	-49	-36	-152	-38	-12	-24	-87	-48	-176
Peru	1 361	1 726	1 837	2 100	2 165	1 683	-739	-439	154	-142	-114	-20	-881	-553	134
Dominican Republic	716	780	700	764	848	900	-48	-68	-200	-121	-124	-93	-169	-192	-293
Uruguay	565	612	670	537	680	684	28	-68	-14	-37	37	32	-9	-37	18

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

The turnaround in the balance on the merchandise account was less marked but still considerable in Brazil, where instead of the small surplus of US\$ 50 million obtained in 1977, a deficit of nearly US\$ 1,000 million was recorded in 1978. Even so, this deficit was only equal to slightly over one-fifth of the huge merchandise trade deficit (around US\$ 4,800 million) recorded in 1974.

The trend towards more stability in trade in goods was also interrupted in Mexico, where the merchandise account deficit, after being sharply reduced from US\$ 2,800 million in 1975 to only US\$ 430 million in 1977, doubled in 1978. This was due to the exceptional expansion of imports, whose value rose by nearly 37%, thus exceeding the marked increase (31%) in exports.

The complete reversal of the balance on the region's merchandise account in 1978 and the increase of US\$ 500 million in net non-factor payments in that year contributed to a trade deficit of US\$ 6,100 million, which was three times the deficit recorded in the previous year (see table 7).

In 1978, in contrast, there was a significant change in the rate of increase in net payments of profits and interest. These, which in the three preceding years had increased at an annual rate of over 20%, rose by only 6% in 1978. This slower growth was decisively influenced by the absolute drop recorded for the first time in Brazil's remittances of profits and interest. For the region as a whole, however, the total amount of these remittances reached the unprecedented level of over US\$ 9,000 million (see table 8).

Added to the negative trade balance, this helped to generate a deficit of US\$ 14,600 million on Latin America's current account. This was not only 40% more than the 1977 deficit, but also slightly exceeded the previous peak deficit of slightly over US\$ 14,000 million recorded in 1975.

The marked increase in the current account deficit also meant that in 1978 the declining trend it had followed since 1975 as a percentage of exports of goods and services was inverted. This proportion was 23% in 1978, and although much less than the 31% recorded in 1975, was distinctly higher than the 1976 and 1977 proportions (19% and 17%, respectively).

Table 8

LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payments of profits and interest			Balance on current account a/			Movement of capital b/			Balance of payments position before compensation		
	1976	1977	1978 c/	1976	1977	1978 c/	1976	1977	1978 c/	1976	1977	1978 c/	1976	1977	1978 c/
Latin America	-3 449	-2 101	-6 108	-6 985	-8 517	-9 042	-10 057	-10 361	-14 622	12 719	14 694	21 583	2 662	4 333	6 961
Oil-exporting countries	2 079	-1 784	-4 551	-411	-326	-256	1 480	-2 362	-5 034	-908	2 795	3 568	572	433	-1 466
Bolivia	-81	-107	-297	-50	-73	-115	-129	-178	-398	185	252	274	56	74	-124
Ecuador	54	-188	-34	-200	-231	-246	-133	-409	-260	319	505	291	186	96	31
Trinidad and Tobago	700	485	340	-266	-245	-180	223	227	148	58	200	176	261	429	324
Venezuela	1 606	-1 974	-4 560	105	223	285	1 519	-2 002	-4 524	-1 450	1 836	2 827	69	-166	-1 697
Non-oil-exporting countries	-5 528	-317	-1 557	-6 554	-8 191	-8 786	-11 537	-7 999	-9 588	13 627	11 899	18 015	2 090	3 900	8 427
Argentina	1 043	1 840	2 773	-450	-579	-740	616	1 294	2 078	-495	279	1 142	121	1 573	3 220
Barbados	-66	-53	-49	-4	-10	-10	-58	-49	-42	40	555	61	-18	6	19
Brazil	-4 074	-1 415	-2 714	-2 248	-3 547	-3 422	-6 317	-4 960	-6 048	8 629	5 533	9 096	2 312	573	3 048
Colombia	574	670	480	-293	-298	-318	331	422	209	278	80	426	609	502	635
Costa Rica	-141	-160	-252	-76	-74	-92	-206	-221	-330	242	296	334	36	75	4
Chile	387	-123	-408	-357	-359	-460	24	-469	-843	156	584	1 460	180	115	617
El Salvador	33	-5	-162	-41	-43	-45	19	-14	-175	62	52	233	81	38	58
Guatemala	-146	-91	-275	-66	-63	-62	-5	-60	-223	216	188	292	211	128	69
Guyana	-114	-72	-23	-20	-21	-21	-136	-96	-45	33	75	77	-103	-21	32
Haiti	-72	-100	-99	-7	-11	-12	-48	-82	-78	60	92	94	12	10	16
Honduras	-66	-81	-121	-56	-68	-73	-118	-145	-178	157	202	207	39	57	29
Jamaica	-192	50	-49	-115	-137	-164	-307	-72	-196	47	69	201	-260	-3	5
Mexico	-1 387	285	-238	-2 173	-2 217	-2 423	-3 423	-1 781	-2 462	2 437	2 347	2 685	-986	566	223
Nicaragua	-3	-129	28	-73	-77	-69	-72	-205	-31	95	213	-69	23	8	-100
Panama	-158	-103	-131	-33	-56	-68	-203	-170	-215	220	164	295	17	-6	80
Paraguay	-87	-48	-176	-12	-16	-20	-98	-64	-194	128	161	392	40	97	198
Peru	-881	-553	134	-371	-423	-559	-1 233	-957	-369	912	954	514	-321	-3	145
Dominican Republic	-169	-192	-293	-87	-124	-148	-221	-267	-391	210	299	365	-11	32	-26
Uruguay	-9	-37	18	-72	-68	-80	-82	-103	-55	190	256	210	108	153	155

Source: 1976-1977: International Monetary Fund; 1978: CEPAL, on the basis of official data.

a/ Including net private transfer payments.

b/ Including errors and omissions.

c/ Preliminary figures.

As in 1977, the increase in Latin America's deficit on current account was mainly due to the higher negative balances recorded in the oil-exporting countries, particularly Venezuela. In this country the current account deficit rose to over US\$ 4,500 million in 1978 (125% higher than in 1977).

Contrary to what happened the year before, however, in 1978 the bigger deficit for the region as a whole was also considerably influenced by the increases in the current account deficits of Brazil and Mexico. Thus, the deficit on Brazil's current account, after falling for three consecutive years from nearly US\$ 7,300 million in 1974 to a little less than US\$ 5,000 million in 1977, once again exceeded the US\$ 6,000 million mark in 1978, while the deficit on Mexico's current account rose by nearly 40% after a drop from US\$ 4,070 million in 1975 to US\$ 1,780 million in 1977.

This trend contrasted with that shown by Argentina which, as in 1977, notably increased its current account surplus. On the other hand, 1978 witnessed sharp reductions in the current account surpluses recorded in the previous year by Colombia and Trinidad and Tobago. These were the only countries other than Argentina which obtained a surplus in their current external operations in 1978.

(b) The capital account

In 1978 the net inflow of non-compensatory capital increased to the unprecedented sum of nearly US\$ 21,600 million, which was 47% higher than the figure for the previous year. Since the net inflow of capital comfortably exceeded the deficit on current account, the global balance of payments reflected a final surplus of nearly US\$ 7,000 million (see table 8).

The increase in capital inflows was particularly marked in the non-oil-exporting countries, thus interrupting the declining trend they had shown in the two preceding years. As a result, their balance of payments surplus in 1978 was more than double the previous year's surplus and four times that obtained in 1976.

/As in

As in previous years, Brazil absorbed the lion's share of the capital entering the region. The investment and net loans received by that country in 1978 amounted to the unprecedentedly high sum of US\$ 9,100 million, which was equal to over 40% of the total net inflow of capital in Latin America and was 65% higher than that received by Brazil in 1977. As a result, and in spite of the fact that in 1978 Brazil's current account deficit increased, its balance of payments closed with a surplus of over US\$ 3,000 million.

The net inflow of loans and investment also reached very high figures in Venezuela (US\$ 2,830 million) and Mexico (US\$ 2,690 million), but it failed to offset the substantial deficit on the current account of Venezuela's balance of payments. There was also a considerable inflow of capital to Chile - which received US\$ 1,430 million or 150% more than the net loans and investment obtained in 1977 - and Argentina, where the inflow of capital amounted to US\$ 1,140 million and, together with the surplus obtained in the country's current external transactions, helped to generate an exceptionally large balance of payments surplus of over US\$ 3,200 million (see table 8).

On the other hand, the net inflow of capital dropped sharply in Ecuador and Peru, and slightly in Trinidad and Tobago and Uruguay. Nicaragua was the only country where there was a net outflow of capital in 1978.

Except, then, for the cases of Nicaragua, Venezuela, Bolivia and the Dominican Republic, all the other countries of the region registered inflows of non-compensatory capital which exceeded the current account deficit, so that in all of them the balance of payments finally showed a surplus.

This result was naturally reflected in the evolution of gross international reserves. In the region as a whole, these increased by about 22%, so that at the end of 1978 they stood at over US\$ 34,000 million (see table 9).

Table 9
LATIN AMERICA: EVOLUTION OF GROSS INTERNATIONAL RESERVES

(Millions of dollars)

	End of				Growth rates			
	1975	1976	1977	1978	1975	1976	1977	1978
<u>Latin America</u>	<u>18 633</u>	<u>23 511</u>	<u>28 211</u>	<u>34 415</u>	<u>2.8</u>	<u>26.2</u>	<u>20.0</u>	<u>22.0</u>
<u>Oil-exporting countries</u>	<u>10 054</u>	<u>10 275</u>	<u>10 605</u>	<u>9 210</u>	<u>35.0</u>	<u>2.2</u>	<u>3.2</u>	<u>-13.2</u>
Bolivia	156	168	237	198	-19.4	7.7	41.1	-16.5
Ecuador	286	515	671	688	-18.4	80.1	30.3	2.5
Trinidad and Tobago	751	1 014	1 483	1 807	92.4	35.1	46.3	21.8
Venezuela	8 861	8 578	8 214	6 517	36.1	-3.2	-4.2	-20.7
<u>Non-oil-exporting countries</u>	<u>8 579</u>	<u>13 236</u>	<u>17 606</u>	<u>25 205</u>	<u>-20.6</u>	<u>54.3</u>	<u>35.0</u>	<u>43.2</u>
Argentina	452	1 608	3 331	5 161	65.6	255.8	107.2	54.9
Barbados	40	28	37	60	2.6	-30.0	32.1	62.2
Brazil	4 034	6 541	7 256	11 197 ^{a/}	25.5	62.1	10.9	54.3
Colombia	521	1 158	1 821	2 456	16.0	122.2	57.3	34.9
Costa Rica	51	98	193	197	14.8	92.2	96.9	2.1
Chile	109	460	484	1 154	7.1	322.0	5.2	138.4
El Salvador	127	205	233	291	29.0	61.4	13.7	24.9
Guatemala	304	511	690	765	50.4	68.1	35.0	10.9
Guyana	100	27	23	58	58.7	-73.0	-14.8	152.2
Haiti	13	28	34	45 ^{b/}	-35.0	115.4	21.4	32.3
Honduras	97	131	180	185	118.5	35.1	37.4	2.8
Jamaica	126	32	48	53	-34.0	-74.6	50.0	10.4
Mexico	1 533	1 253	1 723	1 739 ^{c/}	9.9	-18.3	37.5	1.0
Nicaragua	122	147	149	50	16.2	20.5	1.4	-66.4
Panama	34	79	71	150	-12.5	132.4	-10.0	111.3
Paraguay	115	158	268	466	31.9	37.4	69.6	73.9
Peru	467	330	421	566	-51.8	-29.3	27.6	34.4
Dominican Republic	116	127	185	159	27.9	9.5	45.7	-14.1
Uruguay	218	315	459	453	6.0	44.5	45.7	-1.3

Source: International Monetary Fund, International Financial Statistics, April 1979.

^{a/} Figures at end of November.

^{b/} Figures at end of August.

^{c/} Figures at end of October.

/In view

In view of the fact that the gross international reserves declined in the group of oil-exporting countries, the share of these countries in Latin America's total reserves also declined, as in previous years. Accordingly, this proportion, which in 1975 had been 54%, dropped to a little less than 27% in 1978.

Among the non-oil-exporting countries, the gross reserves continued to increase sharply in Argentina and Chile - where the amounts at the end of 1978 were 10 times higher than those recorded only three years before -, in Colombia and Paraguay, whose reserves at the end of the year were four times the 1975 figures, and in Barbados, Brazil, El Salvador, Haiti and Peru.

IV. INFLATION

The incidence of inflation in the region during 1978 was similar to that of the previous year. Although price increases in the last two years have been significantly lower than those of the years 1975 and 1976, which together constituted the period of its greatest virulence, inflation cannot be said to be on the wane, for the indicator used to measure its evolution in the countries of the region as a whole shows price increases of around 40% in 1978 (see table 10).

As in previous years, the inflation affected the different countries of the region with varying intensity. Nine of the 23 countries considered showed price increases of less than 10%, while six suffered from acute inflation which was reflected in price increases of more than 30%.

There was also clear heterogeneity from the point of view of the dynamics of these processes. While half the countries in 1978 showed higher rates of inflation than the previous year, it proved possible to moderate the rate of increase in price levels in the other half. The most striking cases of speeding up of inflation were to be seen in Peru, Jamaica, Paraguay and Guyana, whereas inflation in Chile, Colombia and Panama was moderated to an appreciable extent. In Argentina, however, the rate of inflation once again remained at an exceptionally high level.

The differences in performance observed in 1978 mean that conclusions at the regional level are of limited validity. Moreover, the classification of countries according to the degree of intensity of their inflation, which was very relevant for the period 1970-1977, last year showed some signs of becoming less applicable, especially because of the very much higher price increases which took place in Peru and Jamaica and the considerable drop in the rate of inflation in Chile (see table 10).

In any case, in the three groups of countries there was definite asynchronism in the evolution of inflation during 1978, resulting in a very special picture of inflation in the region which differed appreciably from that of previous years, when one of the most significant factors of inflation was the impetus it was given from abroad. What was termed imported inflation constituted a new and singular element in comparison

/Table 10

Table 10
LATIN AMERICA: VARIATIONS IN CONSUMER PRICES ^{a/}

	1970	1971	1972	1973	1974	1975	1976	1977	1978
<u>Countries with high inflation</u>	<u>24.9</u>	<u>34.4</u>	<u>52.5</u>	<u>157.2</u>	<u>132.7</u>	<u>314.4</u>	<u>277.1</u>	<u>126.5</u>	<u>123.4</u>
Argentina	21.6	39.1	64.2	48.9	39.9	334.8	347.1	160.4	159.8
Chile	34.9	22.1	163.4	308.1	375.9	340.7	174.3	63.5	30.3
Uruguay	19.3	35.6	54.7	77.5	107.2	65.8	40.0	57.3	46.0
<u>Countries with intermediate inflation</u>	<u>12.3</u>	<u>11.6</u>	<u>10.9</u>	<u>17.2</u>	<u>28.2</u>	<u>23.5</u>	<u>37.6</u>	<u>34.4</u>	<u>32.2</u>
Brazil	17.7	18.1	14.0	13.7	33.8	31.2	44.8	43.1	38.1
Colombia	3.5	14.1	14.0	25.0	26.9	17.9	25.9	29.3	17.8
Mexico	7.8	-0.6	5.6	21.3	20.6	11.3	27.2	20.7	16.2
Peru	5.7	7.7	4.3	13.8	19.2	24.0	44.7	32.4	73.7
<u>Countries with moderate inflation</u>	<u>2.8</u>	<u>4.8</u>	<u>7.4</u>	<u>15.4</u>	<u>20.1</u>	<u>10.4</u>	<u>7.6</u>	<u>8.4</u>	<u>9.9</u>
Bartados	9.2	10.1	10.4	26.0	36.6	12.5	4.0	9.9	11.3
Bolivia	3.8	3.3	23.6	34.8	39.0	6.0	5.5	10.5	13.5
Costa Rica	4.3	1.9	6.9	15.9	30.6	20.5	4.4	5.2	8.2
Ecuador	8.0	6.8	6.9	20.6	21.2	13.2	13.1	9.7	11.7
El Salvador	1.0	-0.6	5.2	7.9	21.0	15.0	5.3	14.9	14.6
Guatemala	1.0	0.3	1.1	17.5	27.4	0.8	17.4	7.4	9.1
Guyana	2.4	1.4	7.1	15.2	11.6	5.5	9.2	9.0	20.0
Haiti	-0.7	13.3	7.3	20.8	19.5	19.9	-0.1	-1.4	1.8
Honduras	1.4	1.5	6.8	5.1	13.0	7.8	5.6	7.7	5.2
Jamaica	7.5	5.2	9.3	9.6	20.6	15.7	8.1	14.1	48.4
Nicaragua						1.9	6.2	10.2	4.4 ^{b/}
Panama	2.5	1.0	6.7	9.7	16.6	1.8	3.3	9.2	5.0
Paraguay	2.3	6.3	9.5	14.1	22.0	8.7	3.4	9.4	16.9
Dominican Republic	-1.3	10.6	8.0	17.2	10.5	16.5	7.0	8.5	1.8
Trinidad and Tobago	3.3	5.9	8.0	24.4	18.6	13.4	12.0	11.4	8.8
Venezuela	3.4	3.0	3.5	5.1	11.6	8.0	6.9	8.1	7.0
<u>Latin America</u>	<u>12.2</u>	<u>13.3</u>	<u>21.2</u>	<u>37.0</u>	<u>40.7</u>	<u>59.7</u>	<u>63.6</u>	<u>41.6</u>	<u>39.9</u>
<u>Latin America (excluding Argentina)</u>	<u>11.3</u>	<u>10.3</u>	<u>17.0</u>	<u>36.3</u>	<u>40.8</u>	<u>33.3</u>	<u>36.3</u>	<u>30.2</u>	<u>27.4</u>

Sources: International Monetary Fund, International Financial Statistics, April 1979, and official data provided by the countries.

^{a/} December to December.

^{b/} November to November.

/with earlier

with earlier processes, at least in terms of the force with which it affected the region and the machinery through which it managed to penetrate. Thus, the rising and falling of prices as from 1973 was accompanied by dearer imports, increases in the prices of exports, and larger volumes of both.

Developments in 1978 do not seem to give rise to a similar interpretation. In fact, both for the region as a whole and the three groups identified, and even for the countries taken individually, the variations in the levels of domestic prices and those corresponding to external trade prices do not have the association observed in recent years, especially as from 1973 (see table 11).

It cannot be denied, however, that the region may still be affected by the imported inflation unleashed in 1973, the delayed effects of which may continue to be reflected at the present time in the conduct of the agents of the Latin American economy. This hypothesis is even more plausible if it is recalled that not all the agitation of world inflation has yet died down and that the increase in import prices in 1978, although not as high as the levels of previous years, nevertheless showed appreciable growth in quite a few cases.

It is, however, evident that aside from the ups and downs of exogenous impulses which earlier constituted quite definite conjunctural movements but whose persistence now gives them a different nature, local factors continued to be decisive in a large number of countries.

Thus, despite the progress made in the struggle against inflation in some cases where stabilization policies of an orthodox nature were followed, the continued existence of high rates of inflation in many countries of the region suggests that factors linked to the economic and social structure continued to act on it.

As may be seen from table 10, the highest indexes of inflation continued to be recorded in the countries where industrialization is most advanced, the economic system is most articulated, and the relative weight of the modern sectors is greatest. Owing to these factors and to the greater capacity of resistance and pressure of the groups which go to make up the most modern strata of the economy, the reproduction and growth of the

Table 11
LATIN AMERICA: PRICES OF IMPORTS AND EXPORTS OF GOODS
(Growth rates)

	Imports					Exports				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
<u>Countries with high inflation</u>	<u>45.2</u>	<u>11.8</u>	<u>3.0</u>	<u>11.2</u>	<u>4.4</u>	<u>30.1</u>	<u>-14.4</u>	<u>0.2</u>	<u>-2.2</u>	<u>5.3</u>
Argentina	46.9	4.1	3.1	12.0	2.5	37.8	-6.1	-5.9	-4.8	7.8
Chile	32.5	8.9	2.0	10.1	8.0	0.1	-27.4	9.5	-0.5	2.5
Uruguay	85.3	7.5	6.0	10.0	3.0	-2.2	-13.6	1.2	10.4	-0.3
<u>Countries with intermediate inflation</u>	<u>38.9</u>	<u>8.7</u>	<u>3.9</u>	<u>5.9</u>	<u>6.8</u>	<u>34.5</u>	<u>-0.4</u>	<u>17.5</u>	<u>21.7</u>	<u>-5.4</u>
Brazil	52.9	9.0	4.0	7.0	7.0	30.0	1.0	17.7	26.0	-7.0
Colombia	32.6	4.1	4.9	10.1	9.0	19.9	-5.8	50.1	58.5	-15.0
Mexico	30.1	9.1	4.0	5.0	5.5	42.3	3.3	15.0	9.9	2.0
Peru	24.1	12.0	2.0	6.5	8.0	46.6	-4.9	-1.6	-1.6	-4.0
<u>Country with moderate inflation</u>	<u>40.6</u>	<u>14.2</u>	<u>6.1</u>	<u>8.8</u>	<u>7.4</u>	<u>119.9</u>	<u>10.1</u>	<u>7.3</u>	<u>15.3</u>	<u>-0.8</u>
Barbados	32.7	11.9	3.0	7.0	6.0	77.1	39.0	-40.0	-0.2	5.0
Bolivia	24.3	13.0	4.1	11.0	10.0	98.4	-10.2	7.1	17.6	10.0
Costa Rica	35.9	13.2	6.0	12.1	6.0	15.0	14.0	17.0	34.9	-5.0
Ecuador	29.7	15.0	6.0	13.0	3.0	128.3	-12.7	18.6	12.3	-8.0
El Salvador	42.2	10.4	0.5	12.0	5.0	24.2	2.8	37.6	35.0	-15.0
Guatemala	42.7	13.0	7.3	9.3	7.1	20.7	11.1	16.0	34.9	-3.5
Guyana	40.0	21.5	2.0	6.0	5.0	66.7	40.0	-7.0	8.4	11.2
Haiti	30.0	12.0	7.0	3.0	7.0	35.8	19.1	38.9	64.1	3.1
Honduras	28.1	13.0	8.1	10.9	4.9	31.1	7.2	17.1	25.0	-2.1
Jamaica	39.2	13.0	2.9	6.0	7.0	80.5	33.7	-10.1	6.0	-
Nicaragua	31.7	15.0	3.4	6.3	10.0	26.1	-7.0	36.3	24.3	4.9
Panama	52.8	15.0	6.1	5.0	3.0	40.5	9.8	2.4	5.0	-5.0
Paraguay	47.4	12.4	-4.4	6.9	2.9	30.1	0.2	-0.4	34.8	-8.9
Dominican Republic	27.9	13.0	5.0	6.0	8.0	44.9	8.5	-29.6	10.2	-10.4
Trinidad and Tobago	121.9	11.3	5.0	6.9	6.0	198.5	9.5	6.0	6.0	-
Venezuela	24.2	16.0	9.0	10.2	10.0	166.7	6.8	6.0	11.9	-
<u>Latin America</u>	<u>41.6</u>	<u>9.8</u>	<u>5.2</u>	<u>7.9</u>	<u>6.2</u>	<u>61.5</u>	<u>-3.4</u>	<u>9.0</u>	<u>11.6</u>	<u>-4.1</u>

Source: CEPAL, on the basis of official data.

/circumstantial inflationary

circumstantial inflationary impulses tend to be more generalized, more rapid and more intensive here than in economies in which the primitive strata predominate or carry substantial weight and in which the intersectoral links are weaker.

Even so, it is evident that the rates of price increases differed in the countries of the three groups which have been distinguished not only because of this greater or lesser structural propensity to inflationary chain reactions - which indeed can be explained to some extent by the much greater duration and intensity of inflation in the relatively more industrialized countries of the region - but also because of the influence of other factors, connected both with the handling of economic policy and the very different external situations which the different economies of the region had to deal with.

This combination of structural and conjunctural, external and internal factors, their interactions and mutual conditioning therefore go to make up an exceedingly complex picture of inflation in the region at the present time. For this reason, and until the interpretation of the new and varied forms of the inflationary process is more thoroughly investigated, it will continue to be difficult to design and apply policies permitting inflation to be tackled without adversely affecting the other objectives of development.